

OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4D

Report for the Half Year ended

31 December 2006

Previous corresponding period : Half year ended 31 December 2005

This half year report is to be read in conjunction with the company's 2006 annual report

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1. Results for announcement to the market

The results of Optiscan Imaging Limited for the half year ended 31 December 2006 are as follows:

Results

- Total revenues from ordinary activities up 188% to \$5,449,831. This total includes significant patent infringement receipts of \$2,076,957. Revenue excluding infringement royalties amounts to \$3,372,874, up 110%.
- Profit from ordinary activities after tax attributable to members \$102,008, (2005, loss \$2,226,595).
- Net profit after tax attributable to members \$102,008, (2005, loss \$2,226,595)

Dividends

No dividends have been paid or declared by the entity since the beginning of the reporting period. No dividends were paid or declared in the previous corresponding period.

2. Brief explanation of results

Total revenue for the half year was \$5,449,831, which comprised sales revenue, income from patent infringement settlements, and other income including royalties, grants and interest received.

A summary of revenue is as follows:

	% up, down	2006	2005
		\$	\$
Sales revenue	Up 440%	2,509,075	569,366
Patent infringement income	Up 728%	2,076,957	285,032
Other income, royalties, grants and interest	Down 16%	863,799	1,034,086
		<u>5,449,831</u>	<u>1,888,484</u>

Sales revenue increased because global product release of the endo-microscope, supplied by Optiscan and marketed by Pentax, occurred in March 2006. As a consequence, the previous corresponding period included only the sale of some pre-production units.

The patent infringement revenue relates to once off settlement of claims for back royalties from licensees.

Other revenues, comprising interest received, grants and royalties amounted to \$863,799 in the current half-year, compared to \$1,034,086 last year, a decline of 16%. Recurring royalty income and interest received was lower, and income from the Commercial Ready Grant was higher.

The gross margin on sales (excluding royalty revenue) was \$0.711M, and expenses decreased 3.4% to \$3.489M. Research and Development continued to be the largest single expense item, amounting to \$1.668M, or 48% of expenses.

2. Brief explanation of results (continued)

The net profit before tax was \$162,791, mainly attributable to the infringement revenue noted above. After allowing for income tax, (which represents the write off of withholding tax deductions amounting to \$60,783), the net profit for the half year is \$102,008, which is an improvement of \$2.328M on the loss for the previous corresponding period (\$2,226,595).

3. Commentary on result

The Review of Operations on pages 7 to 9 of this report is to be read as forming part of this Appendix 4D.

4. Other information to be included in Appendix 4D

Net Tangible Assets per ordinary Security

Net tangible assets per ordinary security at 31 December 2006 amount to \$0.08 (2005, \$0.10).

Subsidiaries, associates and joint ventures

There were no changes in subsidiaries, associates and joint ventures during the year.

Status of audit of accounts

This Appendix 4D is based on accounts which have been subject to audit review.

5. Financial information

Financial information is set out on pages 6 to 21 of this report.



Bruce Andrew
Company Secretary

20 February 2007

Optiscan Imaging Limited

ABN 81 077 771 987

Interim Condensed Financial Report

for the half year ending 31 December 2006

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Corporate Information

ABN 81 077 771 987

This interim report covers the consolidated entity comprising Optiscan Imaging Limited and its subsidiaries. The Group's presentation currency is Australian Dollars AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 7 to 9. The directors' report is not part of the financial report.

Directors

G. F. Latta (Chairman)
M.H. Barnett (Chief Executive Officer)
K.P. Daniel
P. M. Delaney
A. W. Rogers

Company Secretary

B.R. Andrew

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Notting Hill Vic 3168
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Solicitors

Lander & Rogers
600 Bourke Street
Melbourne VIC 3000

Auditors

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Bankers

ANZ Banking Group
National Australia Bank

Directors' Report

The Board of Directors of Optiscan Imaging Limited has pleasure in submitting its report in respect of the half year ended 31 December 2006.

Directors

The names of the directors in office during or since the end of the half year are:

Mr Grant Latta, Chairman
Mr Matthew Barnett, Chief Executive Officer
Mr Keith Daniel, Non-executive Director
Mr Peter Delaney, Director of Technology
Mr Antony Rogers, Non-executive Director

Review of Operations

Optiscan recorded a pre- tax profit of \$163,000 for the half year to 31 December 2006. The result was driven by solid growth in sales of endo-microscope products and once off payments of \$2.1M from settlement of patent infringement actions.

Key achievements for 6 months to December 2006

- Product sales of \$2.5M, up 440% on the previous corresponding period (pcp)
- Pre tax profit of \$163,000, up significantly from a loss of \$2.226M in pcp
- Improved endo-microscope production and supply chain processes
- Shipment of 42 endo-microscope systems to Pentax
- Successful commencement of pilot trials for rigid endo-microscopes
- Construction and commissioning of new cleanroom production environment
- Continued investment in R&D with expenditure up 5% to \$1.67M
- Non R&D expenses reduced by 10%
- Settlement of patent infringement actions resulting in once off income of \$2.1M

Cash on hand at period end was \$5.0M. Cash consumed in the six months was \$1.63M, down 50% from \$3.24M in pcp.

During the period under review, Optiscan continued to build and develop its unique endo-microscope business. Production and supply chain processes with Pentax settled while the company continued to add further value to its technology through continuing clinical trial and R&D activity. Through these achievements, Optiscan confirmed its position as the global leader in this new visualisation modality for medicine.

Financial Results

Sales for the half-year to December amounted to \$2.509M. This total included sales of some service tools and equipment to Pentax. Product sales amounted to \$2.349M.

The profit before tax amounted to \$163,000, and income tax expense, which represents withholding tax deductions from royalties, was \$61,000, resulting in a net profit after tax of \$102,000.

A significant item in the result was income from the settlement of royalty infringement actions. As reported to shareholders during the half year, \$2.077M was brought to account following settlement of these disputes.

Other income comprising recurring royalties, grant income and interest received was down 16% to \$0.86M. Increased income from the Commercial Ready Grant was offset by lower recurring royalties and reduced interest income.

Total expenses were down by 3.4%. Expenditure on R&D and market development activities increased, while administration and other expenses were reduced.

Pentax Flexible Endo-microscope

Global sales release of the Pentax ISC 1000 flexible endo-microscope system occurred on 1 March 2006.

In the half year to December 2006, we manufactured and supplied to Pentax 42 endo-microscope systems and 41 miniaturised scanner sets. This resulted in product sales significantly ahead of the same period last year but marginally lower than shipments in the June 2006 half year, which included a number of market seeding, internal use and demonstration instruments.

During the six months to December, our manufacturing and supply chain activities advanced significantly. We upgraded our production facilities by designing, building and commissioning an ISO rated cleanroom, purpose built to cater for current and future scanner assembly requirements. We also improved our facilities for producing the control boxes that form the other part of the Pentax ISC 1000 instrument. Although these building works resulted in some lost manufacturing capacity during the half year, they provide core infrastructure for anticipated future capacity expansion as demand increases.

Manufacturing during the period was governed by a rolling 6 month forecast of forward orders from Pentax. This provided a sound basis for planning, purchasing and shipping, and enabled us to fine tune our production procedures and associated quality control processes. Through ongoing discussion with Pentax and emerging customer order and sales cycles the visibility provided by these forecasts improved progressively over the period. At period end these orders and forecasts indicated a solid production schedule for the next six months.

Pentax support and promotion of endo-microscopy is now underway in earnest in Europe, USA and key markets in Asia. Marketing activity has also commenced in Australia, with some instrument allocation from Pentax allowing their Australian agent to follow up early enquiries.

Pentax sponsored clinical trial activity during the period continued to demonstrate excellent clinical efficacy of our instruments.

In July the leading teaching hospital for endo-microscopy in Germany, Mainz University Hospital entered into a formal collaboration on endo-microscopy with Johns Hopkins Hospital Baltimore USA. Johns Hopkins is widely regarded as one of the leading research and teaching hospitals in the USA. This trans Atlantic collaboration includes harmonisation of teaching techniques and was an important step in market development activities within the US market.

Other Business

Our efforts to enter the US\$1 billion rigid endoscope market continued to carry a high priority during the half year to end December.

Pilot clinical trial activity in Germany and Australia successfully established two desired end points of sterility in operating theatre environments and efficient clinical workflows for rigid endo-microscopes.

In Germany, more than 25 mini laparoscopy liver examinations have now been completed with investigating doctors focussing on improved disease diagnosis.

In Australia, the trials at Bankstown Hospital in Sydney have continued, with an increasing focus on "whipple" procedure, involving surgical removal of pancreatic cancer. A key aspect of these trials is intra-operative margin assessment, especially from inside biliary and pancreatic ducts.

All of this activity is designed to identify and demonstrate potential applications for a rigid endo-microscope, which can be licensed or commercialised with one or more of the parties with whom we are in discussion.

As noted in the 2006 Annual Report, it is difficult to provide a timeline on when an agreement might be reached, but we continue with both the trial activity and the active discussions.

Exhibition and in market activity for the Optiscan FIVE 1 pre-clinical research endo-microscope accelerated according to plan during the half year.

The FIVE 1 instrument is a variation of the system supplied to Pentax that has been customised to meet the requirements of research markets. In accessing markets with this instrument, we encountered some unexpected challenges with regulatory matters that took some time to successfully resolve.

The instrument is sold direct by Optiscan with an intentionally modest marketing budget that features demonstrations at leading scientific exhibitions and congresses.

We have been very pleased with the level of customer response received to date from these marketing activities. The target market is characterised by lengthy purchase timelines due to research or university grant funding cycles and at period end numerous quotations had been issued ahead of new expenditure budgets commencing in 2007.

While no sales of FIVE 1 were included in the results for the half year we firmly expect sales to commence in early 2007 and build to our target rate of 10 to 12 units per year.

R&D Activity

Over the past six months, our R&D activity has made strong progress on a second generation version of our instruments. While these instruments are several years away from market release the regulatory testing regime necessitates earnest engagement in development activity at this time.

Research activity also conducted during the period included the development of systems capable of deeper imaging within tissue using the next generation of multiphoton lasers.

These are major undertakings, and will consume a large part of our R&D resource over coming periods. They will however, result in significantly improved performance, ergonomics and cost of manufacture in the years to come.

Outlook for 2007

We recently reported that sales in the second half of 2006/07 are expected to be slightly stronger than the first half.

During the period from January to June, Optiscan expects to ship a marginally higher number of Pentax systems but with an increasing number of miniature scanners per system. Based on current forecasts and exchange rates, revenue from Pentax sales for 2006/07 is expected to be in excess of \$5 million.

First sales of FIVE 1 are also expected during the coming six months.

Expenses for the remainder of the year are not expected to vary significantly from current levels. However, should we conclude a collaboration in rigid endo-microscope applications, there may be an acceleration of development effort to satisfy partner requirements for instruments in this market segment.

On this basis, the directors expect the company will report a net loss for the full 2006/07 year. The directors are confident this full year result will be substantially improved from the (\$3.9M) loss reported last year.

Auditor independence and non-audit services

The directors have obtained a declaration of independence from Ernst & Young, the group's auditors, which is attached to this report.

This report has been made in accordance with a resolution of directors.

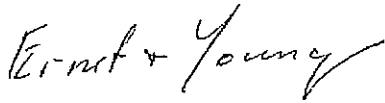
A handwritten signature in black ink, appearing to read "Matthew Barnett".

MATTHEW BARNETT
Director

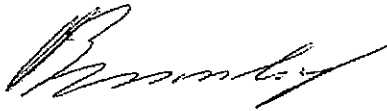
Melbourne
20 February, 2007

Auditor's Independence Declaration to the Directors of Optiscan Imaging Limited

In relation to our review of the financial report of Optiscan Imaging Limited for the half-year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Don Brumley
Partner
10 February 2007

Income Statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Note	CONSOLIDATED	
		2006 \$	2005 \$
Continuing operations			
Sale of goods	4(a)	2,482,707	528,531
Rendering of services		26,368	40,835
Royalty revenue		2,259,652	953,546
Revenue		4,768,727	1,522,912
Cost of sales		(1,798,055)	(408,188)
Gross Profit		2,970,672	1,114,724
Other income	4(b)	681,104	365,572
Administrative expenses		(1,588,696)	(1,750,242)
Research & development expenses		(1,668,100)	(1,591,388)
Marketing expenses		(219,509)	(87,523)
Other expenses		(12,680)	(183,088)
Profit (Loss) before income tax		162,791	(2,131,945)
Income tax expense	5	(60,783)	(94,650)
Profit (Loss) attributable to members of the parent		102,008	(2,226,595)
Profit (Loss) per share (cents per share)			
- basic profit (loss) per share for the year attributable to ordinary equity holders of the parent		0.01	(2.22)
- diluted profit (loss) per share for the year attributable to ordinary equity holders of the parent		0.01	(2.22)

Balance Sheet

AS AT 31 DECEMBER 2006

	Note	CONSOLIDATED	
		December 2006 \$	June 2006 \$
ASSETS			
Current Assets			
Cash and cash equivalents	6	4,959,815	6,651,382
Trade and other receivables		2,338,557	1,336,705
Inventories		1,799,712	1,540,691
Prepayments		263,809	32,443
Total Current Assets		9,361,890	9,561,221
Non-current Assets			
Other financial assets		-	-
Plant and equipment		626,567	395,546
Intangible assets - Software		41,773	39,588
Goodwill		1,981,467	1,981,467
Total Non-current Assets		2,649,807	2,416,601
TOTAL ASSETS		12,011,697	11,977,822
LIABILITIES			
Current Liabilities			
Trade and other payables		770,454	970,537
Provisions		557,183	371,305
Derivatives		-	2,325
Unearned income		-	9,549
Total Current Liabilities		1,327,637	1,353,716
Non-current Liabilities			
Provisions		178,122	310,612
Total Non-current Liabilities		178,122	310,612
TOTAL LIABILITIES		1,505,759	1,664,328
NET ASSETS		10,505,938	10,313,494
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	7	39,146,550	39,142,650
Retained earnings		(29,115,228)	(29,217,236)
Reserves		474,616	388,080
TOTAL EQUITY		10,505,938	10,313,494

Statement of Changes in Equity
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Ordinary Shares \$	Accumulated Losses \$	Employee Equity Benefits Reserve \$	Total \$
Half Year Ended 31 December 2006				
<i>At 1 July 2006</i>	39,142,650	(29,217,236)	388,080	10,313,494
Issue of shares pursuant to exercise of employee options	3,900			3,900
Profit for half year		102,008		102,008
Share based payment			86,536	86,536
<i>At 31 December 2006</i>	<u>39,146,550</u>	<u>(29,115,228)</u>	<u>474,616</u>	<u>10,505,938</u>
Half Year Ended 31 December 2005				
<i>At 1 July 2005</i>	39,136,800	(25,280,476)	199,663	14,055,987
Loss for half year		(2,226,595)		(2,226,595)
Share based payment			71,859	71,859
<i>At 31 December 2005</i>	<u>39,136,800</u>	<u>(27,507,071)</u>	<u>271,522</u>	<u>11,901,251</u>

Cash Flow Statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Note	CONSOLIDATED	
		2006	2005
		\$	\$
Cash flows from (used in) operating activities			
Receipts from customers		2,516,776	313,859
Payments to suppliers and employees		(5,667,313)	(4,431,385)
Royalties received		1,578,009	749,970
Interest received		176,198	275,750
Income tax paid		(60,783)	(94,650)
Receipt of government grants		204,512	101,154
Net cash flows from (used in) operating activities	6	<u>(1,252,601)</u>	<u>(3,085,302)</u>
Cash flows from investing activities			
Purchase of plant and equipment		(363,942)	(155,438)
Purchase of intangible assets - software		(17,366)	(12,537)
Net cash flows used in investing activities		<u>(381,308)</u>	<u>(155,438)</u>
Cash flows from financing activities			
Proceeds from issue of shares	7	3,900	-
Net cash flows from (used in) financing activities		<u>3,900</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents		(1,630,009)	(3,240,740)
Net foreign exchange differences		(61,558)	(9,608)
Cash and cash equivalents at beginning of period		<u>6,651,382</u>	<u>11,716,819</u>
Cash and cash equivalents at end of period	6	<u><u>4,959,815</u></u>	<u><u>8,466,471</u></u>

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited (the Company) for the half year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 20 February 2007.

Optiscan Imaging Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

The nature of the operations and principal activities of the Group are described in note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Optiscan Imaging Limited as at 30 June 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

a) Basis of preparation

The half-year consolidated financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, AASB 134 Interim Financial Reporting and other mandatory professional reporting requirements. The half-year financial report has been prepared on a historical cost basis. The financial report is presented in Australian dollars, and for the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

b) Significant Accounting Policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006.

c) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Optiscan Imaging Limited and its subsidiaries as at 31 December 2006 ('the Group').

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

3 SEGMENT INFORMATION

The Group operates predominantly in one industry and geographical segment, those being medical device technology and Australia respectively.

4 REVENUES AND EXPENSES

	<i>CONSOLIDATED</i>	
	2006	2005
	\$	\$
(a) Sale of goods	2,482,707	528,531
Global product release by Pentax occurred in March 2006, so the comparative period to December 2005 included only a limited number of pre production system sales.		
(b) Other income		
Finance income – bank interest received	174,573	273,614
Government grants	506,531	91,958
	681,104	365,572
(c) Depreciation and amortisation		
Depreciation of plant and equipment	132,918	176,789
Amortisation of software included in Administration expenses	15,181	9,643
	148,099	186,432
(d) Employee benefits expense		
Wages and salaries	2,157,583	1,767,146
Workers' compensation costs	13,274	38,277
Defined contribution plan expense	194,150	149,726
Long service leave provision	(49,075)	78,461
Share-based payments expense	86,536	71,859
	2,402,468	2,105,469
(e) Specific Items		
Royalty revenue includes proceeds from patent infringement actions settled during the period	2,076,957	285,032
(f) Seasonality of operations		
There is no inherent seasonality in the operations of the company.		

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

5 INCOME TAX

Income Statement

Current income tax

Current income tax charge	-	-
Withholding tax deducted from royalty revenue	(60,783)	(94,650)
Income tax reported in income statement	(60,783)	(94,650)

There is no current income tax charge due to the availability of carry forward losses

6 CASH AND CASH EQUIVALENTS

Reconciliation to Cash Flow Statement

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	CONSOLIDATED	
	2006	2005
	\$	\$
Cash at bank and in hand	2,542,557	134,861
Short-term deposits	2,417,258	8,331,610
	<u>4,959,815</u>	<u>8,466,471</u>

Reconciliation of net profit (loss) after tax to net cash flows from operations

Net profit (loss)	102,008	(2,226,595)
<i>Adjustments for:</i>		
Depreciation	148,099	186,432
Net exchange differences	61,558	9,608
Share options expensed	86,536	71,859
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(1,001,850)	(383,907)
(Increase)/decrease in inventories	(259,021)	(537,804)
(Increase)/decrease in prepayments	(231,364)	(48,666)
(Decrease)/increase in trade and other payables	(202,406)	(261,651)
(Decrease)/increase in unearned income	(9,549)	-
(Decrease)/increase in provisions	53,388	105,422
Net cash used in operating activities	<u>(1,252,601)</u>	<u>(3,085,302)</u>

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

7 CONTRIBUTED EQUITY AND RESERVES

	<i>CONSOLIDATED</i>	
	<i>Half Year Ended December 2006 \$</i>	<i>Year Ended June 2006 \$</i>
Ordinary shares - Issued and fully paid	39,146,550	39,142,650
Fully paid ordinary shares carry one vote per share and carry the right to dividends.		
	\$	\$
<i>Movement in issued capital</i>		
Opening Balance	39,142,650	39,136,800
Issued upon exercise of employee options	3,900	5,850
Closing Balance	39,146,550	39,142,650
	<i>No of Shares</i>	<i>No of Shares</i>
<i>Movement in ordinary shares on issue</i>		
Opening Balance	100,159,573	100,144,573
Issued on 12 July 2006 upon exercise of employee options	10,000	-
Issued on 28 April 2006 upon exercise of employee options	-	15,000
Closing Balance	100,169,573	100,159,573

8 EVENTS AFTER THE BALANCE SHEET DATE

The directors are not aware of any events after balance date that would have a material impact on the financial statements at 31 December 2006.

9 CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent assets or liabilities, other than the settlement of outstanding patent infringement actions (refer note 4(e)), which at the last balance date were reported as contingent assets. These patent infringement settlements arose from Patent Office decisions in Europe and Japan during 2004/2005 that upheld the validity of the company's patents in those jurisdictions.

Directors' Declaration

In accordance with a resolution of the directors of Optiscan Imaging Limited, I state that:

1 In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the financial position as at 31 December 2006 and the performance for the half year ended on that date of the consolidated entity; and
 - ii comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Matthew Barnett".

Matthew Barnett

Director

Melbourne, 20 February 2007

To the members of Optiscan Imaging Limited,

Report on the Half-Year Financial Report

Scope

We have reviewed the accompanying half-year financial report of Optiscan Imaging Limited and the entities it controlled during the period, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the six months ended on that date, other selected explanatory notes, and the directors declaration.

Directors responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures performed, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Optiscan Imaging Limited and the entities it controlled during the period, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

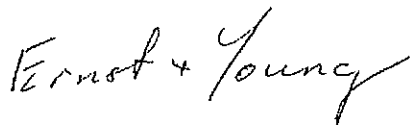
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

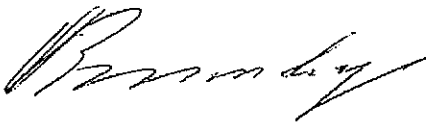
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim report of Optiscan Imaging Limited and the entities it controlled during the period is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Don Brumley
Partner
Melbourne
1st February 2007